

Financial review and other information



Financial review

The economic figures relating to "new business" include the values of the companies acquired during 2018 and 2019, which are responsible for the Energy Transition activities, as well as the activities of Snam Global Solutions. Consistently, the figures for the comparison period have been restated.

However, in accordance with IFRS 8 "Operating Segments," the operating segments that are reported separately were not changed and therefore refer to regulated activities related to the transportation, regasification and storage of natural gas. To this end, it notes that the new companies of the Energy Transition, are included within the "Corporate and other activities" segment, which is not operational in accordance with IFRS 8. An analysis of EBIT by business segment is provided in the "Business segment operating performance" section.

INCOME STATEMENT

	First half			2020 adjusted vs 2019	
	2019	2020			
(€ million)	Reported	Reported	Adjusted (a)	Change	Change %
Regulated revenues (b)	1,252	1,273	1,273	21	1.7
Non-regulated revenue	16	12	12	(4)	(25.0)
Core business revenues	1,268	1,285	1,285	17	1.3
New business revenues	35	61	61	26	74.3
TOTAL REVENUES (b)	1,303	1,346	1,346	43	3.3
Core business costs (b)	(156)	(188)	(179)	(23)	14.7
New business costs	(36)	(60)	(60)	(24)	66.7
TOTAL OPERATING COSTS (b)	(192)	(248)	(239)	(47)	24.5
EBITDA	1,111	1,098	1,107	(4)	(0.4)
Amortisation, depreciation and impairment losses	(355)	(374)	(374)	(19)	5.4
EBIT	756	724	733	(23)	(3.0)
Net financial expenses	(85)	(67)	(67)	18	(21.2)
Net income from equity investments	118	110	110	(8)	(6.8)
Profit before taxes	789	767	776	(13)	(1.6)
Income taxes	(208)	(195)	(198)	10	(4.8)
Net profit (c)	581	572	578	(3)	(0.5)

- (a) The values exclude the special items. For more details see the summary below.
- (b) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.
- (c) Entirely held by Snam shareholders.

Reconciled summary of adjusted results (*)

(€ million)	First half		Change	Change %
	2019	2020		
EBIT	756	724	(32)	(4.2)
Exclusion of special items for emerging COVID-19 costs:		9	9	
- of which donations		7	7	
- of which sanitary material for internal use		1	1	
- of which services		1	1	
Adjusted operating profit (adjusted EBIT)	756	733	(23)	(3.0)
Net profit (**)	581	572	(9)	(1.5)
Exclusion of special items for emerging COVID-19 costs net of related taxes		6	6	
Adjusted net profit (**)	581	578	(3)	(0.5)

(*) Further details are provided in the section "Alternative Performance Measures (Non-GAAP Measures)" of this Report.

(**) Entirely held by Snam shareholders.

Adjusted EBITDA for the first half of 2020 amounted to Euro 733 million, coming in below the corresponding amount reported in the first half of 2019, for a decrease of Euro 23 million, or 3.0%. The higher regulated revenues deriving from the increase in the RAB base (Euro +6 million), together with the cost reduction actions activated as a result of the lock-down measures, were absorbed by the effects of the reduction in volumes of gas transported as a result of the COVID-19 health emergency and milder weather during the winter months (Euro -15 million, compared with the same period of the previous year). The reduction in EBIT was also affected by the physiological increase in depreciation and amortisation for the period (Euro -19 million, or 5.4%), due mainly to the commissioning of new assets.

Adjusted net profit in the first half of 2020 amounted to Euro 578 million, a slight reduction (Euro -3 million or 0.5%) compared with the net profit achieved in the first half of 2019 (Euro 581 million). The above-mentioned reduction in EBIT was partly absorbed by the improvement in net financial expense (Euro +18 million; equal to 21.2%), mainly due to the optimisation of the financial structure and treasury management, despite the higher average indebtedness for the period influenced by the outlay for the acquisition of the jointly controlled interest in OLT, as well as temporary effects on working capital, which are expected to be partly reabsorbed in the second half of the year. The reduction in net profit was also affected by lower income from equity investments (Euro -8 million; -6.8%) due to the lower contribution of the investee company Teréga, which in the first half of 2019 had benefited from non-recurring income, and Interconnector UK, had lower capacity commitments in the first half of the year compared with the same period last year, more than absorbed by lower income taxes (Euro -10 million; equal to 4.8%) essentially due to lower pre-tax profit.

Net of the emerging costs subject to adjustment, the overall impact on net income in the first half of 2020 resulting from the effects of COVID-19 amounts to approximately Euro 5 million.

Analysis of the entries on the adjusted income statement

Total revenue

(€ million)	First half		Change	Change %
	2019	2020		
Business segments				
Transportation (a)	1,068	1,080	12	1.1
Storage (a)	295	342	47	15.9
Regasification	19	15	(4)	(21.1)
Corporate and other activities	132	189	57	43.2
<i>Consolidation eliminations</i>	<i>(211)</i>	<i>(280)</i>	(69)	32.7
	1,303	1,346	43	3.3

Core and new business revenues

(€ million)	First half		Change	Change %
	2019	2020		
Core business revenues	1,268	1,285	17	1.3
Regulated revenues (a)	1,252	1,273	21	1.7
- Transportation (a) (b)	992	1,014	22	2.2
- Storage (a) (b)	251	248	(3)	(1.2)
- Regasification	9	11	2	22.2
Non-regulated revenue	16	12	(4)	(25.0)
New business revenues	35	61	26	74.3
Total revenue (a)	1,303	1,346	43	3.3

- (a) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.
- (b) In the consolidated financial statements, the considerations for the modulation service, an integral part of transportation revenue, are eliminated under the transportation companies, along with the costs of the service purchased from the storage company, in order to reflect the substance of the transaction. Consistently, the corresponding figures for the first half of 2019 have been restated.

Total revenue in the first half of 2020 amounted to Euro 1,346 million, up by Euro 43 million or 3.3% compared with the first half of 2019.

Core business revenues (Euro 1,285 million, net of consolidation eliminations) rose Euro 17 million compared with the first half of 2019 (+1.3%) due to higher regulated revenues, up Euro 21 million or 1.7%, thanks in particular to the contribution from the transportation business segment. Net of the effects of the sterilisation of energy costs,

regulated revenues amounted to Euro 1,243 million, down by Euro 9 million or 0.7%. The higher revenues mainly attributable to tariff updating mechanisms, which are attributable in particular to the increase in RAB, were absorbed by the reduction in volumes transported as a result of the COVID-19 health emergency, as well as milder weather compared with 2019.

Revenues from new businesses (Euro 61 million, net of consolidation eliminations), increased by Euro 26 million compared to the first half of 2019 (+74.3%) thanks to an increase in EPC activities on Biogas and Biomethane plants, following an increase in active construction sites (from 6 to 11 active construction sites in the first half of 2020), higher revenues for energy efficiency projects thanks to deep renovation activities in the residential sector, an increase in sales of automotive compressors - CNG, as well as the development of Snam Global Solutions activities. The increase in revenues was also affected by the contribution of the companies that joined the scope of consolidation at the end of 2019 operating in the biomethane business.

Operating costs

(€ million)	First half		Change	Change %
	2019	2020		
Business segments				
Transportation	166	192	26	15.7
Regasification	15	11	(4)	(26.7)
Storage	76	126	50	65.8
Corporate and other activities (*)	146	189	43	29.5
<i>Consolidation eliminations</i>	<i>(211)</i>	<i>(279)</i>	<i>(68)</i>	<i>32.2</i>
	192	239	47	24.5

(*) The value for the first half of 2020 excludes special items.

Core and new business operating costs

(€ million)	First half		Change	Change %
	2019	2020		
Core business costs (a)	156	179	23	14.7
Fixed costs	139	142	3	2.2
Variable costs	10	21	11	
Other costs (b)	7	16	9	
New business costs	36	60	24	66.7
Total operating costs (a)	192	239	47	24.5

(a) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.

(b) The value for the first half of 2020 excludes special items.

Total revenue in the first half of 2020 amounted to Euro 239 million, up by Euro 47 million (24.5%) compared with the first half of 2019.

Operating costs of the core business amounted to Euro 179 million, an increase of Euro 23 million, or 14.7%, compared with the first half 2019.

The effects of the cost reduction actions activated as a result of the lock-down measures, together with the dynamics of the provisions for risks and charges, were more than absorbed by the increase in energy costs, referring in particular to the costs for the purchase of fuel gas, previously contributed in kind by shippers. These costs are covered by revenues, based on the current regulatory framework for the fifth regulatory period.

New business operating costs (Euro 60 million) rose by Euro 24 million, or 66.7% compared to the same period of 2019. The increase is mainly attributable to the costs arising from the entry and integration of companies active in the biomethane business that entered the scope of consolidation at the end of 2019.

The number of employees as at 30 June 2020 (3,048 people) is analysed below by professional status:

	First half		Change	Change %
	2019	2020		
Professional status				
Executives	103	122	19	18.4
Managers	489	505	16	3.3
Office workers	1,691	1,686	(5)	(0.3)
Manual workers	731	735	4	0.5
	3,014	3,048	34	1.1

The increase of 34 units compared to the first half of 2019 is mainly due to the resources coming from Renerwaste and TEA Servizi, which joined the group at the end of 2019.

Amortisation, depreciation and impairment losses

(€ million)	First half		Change	Change %
	2019	2020		
Total amortisation and depreciation	355	374	19	5.4
Business segments				
Transportation	295	309	14	4.7
Regasification	2	3	1	50.0
Storage	50	53	3	6.0
Corporate and other activities	8	10	2	25.0
<i>Consolidation eliminations</i>		(1)	(1)	
Impairment losses (Recovery of value)				
	355	374	19	5.4

Amortisation, depreciation and impairment losses (Euro 374 million) rose by Euro 19 million or 5.4% on the first half 2019, mainly due to the natural gas transportation segment, following, essentially, the commissioning of new assets.

EBIT

(€ million)	First half		Change	Change %
	2019	2020		
Business segments				
Transportation	607	579	(28)	(4.6)
Regasification	2	1	(1)	(50.0)
Storage	169	163	(6)	(3.6)
Corporate and other activities (*)	(22)	(10)	12	54.5
	756	733	(23)	(3.0)

(*) The value for the first half of 2020 excludes special items.

Net financial expenses

(€ million)	First half		Change	Change %
	2019	2020		
Financial expense related to net financial debt	81	72	(9)	(11.1)
- Interest and other expense on short- and long- term financial debt	85	77	(8)	(9.4)
- Bank interest income	(4)	(5)	(1)	25.0
Other net financial expense (income)	8		(8)	(100.0)
- Accretion discount	4	3	(1)	(25.0)
- Other net financial expense (income)	4	(3)	(7)	(175.0)
Losses on derivatives - ineffective portion	1	1		
Financial expense capitalised	(5)	(6)	(1)	20.0
	85	67	(18)	(21.2)

Net financial expense (Euro 67 million) record a Euro 18 million reduction, equal to 21.2%, in respect to the first half 2019. The reduction is due to the benefits of the initiatives implemented by Snam to optimise its treasury management financial structure, despite the higher average debt for the period. The financial expense capitalised in the first half of 2020 total Euro 6 million, basically in line with the first half of 2019 (Euro +1 million).

Income from equity investments

(€ million)	First half		Change	Change %
	2019	2020		
Effect of valuation using the equity method	116	107	(9)	(7.8)
Dividends	2	2		
Other income		1	1	
	118	110	(8)	(6.8)

Net income from equity investments (Euro 110 million) refers mainly to the Group's interest in the net results of companies valued by the equity method (Euro 107 million), mainly related to the joint ventures TAG (Euro 44 million; Euro 39 million in the first half 2019), Teréga (Euro 20 million; Euro 29 million

in the first half 2019) and the associates Italgas (Euro 21 million; Euro 23 million in the first half 2019) and Senfluga (Euro 17 million; Euro 15 million in the first half 2019).

The decrease of Euro 9 million compared with the first half of 2019 is mainly attributable to the contribution of Teréga, which in the first half of 2019 had benefited from non-recurring income, and Interconnector UK, which had lower capacity commitments in the first half compared with the same period last year, as well as a lower contribution from Italgas.

Income taxes

(€ million)	First half		Change	Change %
	2019	2020		
Current taxes (*)	223	215	(8)	(3.6)
(Prepaid) deferred taxes				
Deferred taxes	(30)	(8)	22	(73.3)
Prepaid taxes	15	(9)	(24)	(160.0)
	(15)	(17)	(2)	13.3
	208	198	(10)	(4.8)
Tax rate (%) (*)	26.4	25.5	(0.9)	(3.4)

(*) The value for the first half of 2020 excludes special items.

Income taxes for the first half of 2020 (Euro 198 million) decreased by Euro 10 million, or 4.8%, compared with the same period of the previous year, mainly due to the lower pre-tax profit, the greater ACE - Aid to economic Growth benefit¹¹, reintroduced by the 2020 Budget Law, as well as the benefits associated with the tax benefits from super-amortisation.

The tax rate was 25.5% (26.4% in the first half 2019).

Non-GAAP measures

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business sectors, ensuring better comparability of results over time.

Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.

In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from

¹¹ This measure, introduced by Decree-Law no. 201 of 6 December 2011 converted into Law no. 214 of 22 December 2011 and subsequent additions and amendments, was repealed by the 2019 Budget Law and reinstated by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.

reclassifications or algebraic sums of conventional indicators¹² and compliant with international accounting standards¹³.

With regard to the impact of COVID-19 on the determination of alternative performance indicators, ESMA¹⁴ recommends caution in the use of separate items in the income statement with regard to the impacts of COVID-19 in order to ensure consistency in the determination of alternative performance indicators, and not to affect the comprehensibility of a company's financial performance through new indicators if not adequately justified.

In accordance with these recommendations, also due to the limited impact of COVID-19 on its results, Snam has not changed the Non-GAAP financial disclosure provided previously, simply isolating emerging costs directly related to the current pandemic situation as income components classified under special items, as illustrated below.

EBITDA, EBIT and adjusted net profit

EBITDA, EBIT and adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the legal scheme of the Income Statement.

The income statement items classified as special items in the first half of 2020 include Euro 9 million in costs incurred as a result of the emergency caused by the COVID-19 pandemic (Euro 6 million net of related taxes), broken down as follows: (i) donations of medical equipment (Euro 5 million) and money (Euro 2 million), also through the Snam Foundation, in favour of the Italian health system and the third sector; (ii) purchases of personal protective equipment for internal use (Euro 1 million); costs for services (Euro 1 million), mainly related to workplace sanitisation and security.

No special items were recognised in the first half of 2019.

Special items

The income components are classified under special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

¹² According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in shareholders' equity and the statement of cash flows are conventional indicators or in the commentary notes.

¹³ For the definition of these quantities refer to the Glossary.

¹⁴ For more information see ESMA document 32-51-370 "ESMA Guidelines on Alternative Performance Measures (APMs)" of 17 April 2020, Q&A no. 18.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. "Free cash flow" represents the surplus or cash deficit remaining after the investment financing and closes alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.

Net financial debt

Net financial debt is calculated as financial debt net of liquid funds and equivalents, securities available for sale and to be held to maturity and short-term financial receivables.

Reclassified statement of financial position

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions of investment, operations and financing.

Management believes that this format presents useful additional information for investors as it allows identification of the sources of financing (equity and third-party funds) and the application of such funds for fixed and working capital.

Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (*)

(€ million)	31.12.2019	30.06.2020	Change
Fixed capital	19,311	19,773	462
Property, plant and equipment	16,439	16,469	30
- of which rights of use of leased assets	21	19	(2)
Compulsory inventories	363	363	
Intangible fixed assets	990	1,031	41
Equity investments	1,828	1,844	16
Long-term financial receivables	3	318	315
Net payables for investments	(312)	(252)	60
Net working capital	(1,094)	(618)	476
Provisions for employee benefits	(46)	(43)	3
Assets held for sale	10		(10)
NET INVESTED CAPITAL	18,181	19,112	931
Shareholders' equity	6,258	6,224	(34)
- Held by Snam's shareholders	6,255	6,221	(34)
- Minority interests	3	3	
Net financial debt	11,923	12,888	965
- of which financial payables for leased assets	21	19	(2)
COVERAGE	18,181	19,112	931

(*) For a reconciliation of the reclassified statement of financial position to the compulsory format see the paragraph below "Reconciliation of the reclassified financial statement with the compulsory formats".

The **fixed capital** (Euro 19,773 million) increased by Euro 462 million compared to 31 December 2019, essentially as a result of: (i) the increase in long-term financial receivables (Euro +315 million) following the taking over of the residual portion of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (Euro 332 million; Euro 314 million net of subsequent repayments); (ii) the increase in tangible and intangible assets (Euro +71 million); together with (iii) the trend in net payables related to investment activities (Euro +60 million).

The change in property, plant and equipment and in intangible fixed assets can be broken down as follows:

(€ million)	Property, plant and equipment	Assets intangible	Total
Balance at 31 December 2019	16,439	990	17,429
Technical investments	381	76	457
Amortisation, depreciation and impairment losses	(338)	(36)	(374)
Transfers, write-offs and divestments	(1)		(1)
Other changes	(12)	1	(11)
Balance at 30 June 2020	16,469	1,031	17,500

Technical investments in the first half of 2020, totalling Euro 457 million¹⁵ (Euro 408 million in the first half of 2019), related mainly to the transportation (Euro 388 million) and storage (Euro 43 million) business segments.

Other changes (Euro -11 million) refer mainly to the effect of adjusting the present value of disbursements for site decommissioning and remediation costs (Euro -12 million), due to an increase in expected discount rates. Contributions to works for interference with third parties have been absorbed by the effects of changes in the inventories of piping and related ancillary materials used in plant construction activities, referring to the natural gas transportation business segment.

Equity investments

The item equity investments (Euro 1,844 million) mainly includes: (i) equity investments valued by the equity method in Trans Austria Gasleitung GmbH-TAG (Euro 526 million), Teréga Holding S.A.S. (Euro 495 million), Trans Adriatic Pipeline AG – TAP (Euro 260 million), Italgas S.p.A. (Euro 201 million), Senfluga Energy Infrastructure Holdings (Euro 137 million), AS Gasinfrastruktur Beteiligung GmbH (Euro 121 million) and Interconnector UK (Euro 59 million); (ii) the minority interest in the company Terminale GNL Adriatico S.r.l. (Adriatic LNG) (Euro 37 million).

¹⁵ An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

Net working capital

(€ million)	31.12.2019	30.06.2020	Change
Trade receivables	1,217	1,267	50
Inventories	112	122	10
Tax receivables	35	50	15
Other assets	185	85	(100)
Provisions for risks and charges	(713)	(696)	17
Trade payables	(487)	(312)	175
Assets and liabilities from regulated activities	(145)	(146)	(1)
Deferred tax liabilities	(106)	(85)	21
Derivative liabilities/(assets)	(63)	(79)	(16)
Tax liabilities	(35)	(53)	(18)
Other liabilities	(1,094)	(771)	323
	(1,094)	(618)	476

The Net Capital for the Fiscal Year (Euro -618 million) improve by Euro 476 million in respect to 31 December 2019. This improvement was mainly due to: (i) the reduction in the amount payable to Snam shareholders against the payment, on 22 January 2020, of the 2019 interim dividend of Euro 0.095 per share (Euro +313 million); (ii) higher net assets for additional tariff components invoiced to transport service users (Euro +75 million), mainly due to the dynamics of invoicing fees and the related collection times; (iii) the recognition of the receivable from the CSEA for the lower amounts invoiced to transport users in the first half of 2020, compared with the constraint established by the Regulatory Authority (Euro +45 million).

Statement of comprehensive income

(€ million)	First half	
	2019	2020
Net profit	581	572
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedging derivatives (effective share)	(52)	(15)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (*)	(22)	(25)
Tax effect	12	4
	(62)	(36)
Total other components of comprehensive income, net of tax effect	(62)	(36)
Total comprehensive income	519	536
- Held by Snam's shareholders	519	536
- Minority interests		
	519	536

(*) The values essentially refer to the change in the fair value of derivative financial instruments used to hedge investments in associates TAP and Senfluga.

Shareholders' equity

(€ million)	
Shareholders' equity at 31 December 2019	6,258
<i>Increases owing to:</i>	
- Comprehensive income for first half 2020	536
- Other changes	7
	543
<i>Decreases owing to:</i>	
- 2019 dividend balance	(466)
Acquisition of treasury shares	(111)
	(577)
Shareholders' equity at 30 June 2020	6,224
- Held by Snam's shareholders	6,221
- Minority interests	3

Note 18 "Shareholders' Equity" of the Notes to the condensed interim consolidated financial statements gives information about the individual equity items and changes therein compared with 31 December 2019.

At 30 June 2020 Snam held 125,483,107 treasury shares (102,412,920 at 31 December 2019), equal to 3.70% of the share capital (102,412,920 treasury shares, equal to 3.02% of the share capital at 31 December 2019), for a book value of approximately Euro 500 million (Euro 389 million at 31 December 2019) and recorded as a reduction in shareholders' equity. The market value

of the treasury shares at 30 June 2020 was around Euro 544 million¹⁶. For further information about treasury shares, please refer to the next section entitled "Other information - Treasury shares".

Net financial debt

(€ million)	31.12.2019	30.06.2020	Change
Financial and bond debt	14,774	15,992	1,218
Short- term financial debt (*)	4,125	5,100	975
Long- term financial payables	10,628	10,873	245
Financial payables for leased assets (**)	21	19	(2)
Financial receivables and cash and cash equivalents	(2,851)	(3,104)	(253)
Cash and cash equivalents	(2,851)	(3,104)	(253)
	11,923	12,888	965

(*) Includes the short- term portion of long- term financial payables.

(**) Of which Euro 14 million long-term and Euro 5 million short- term portions of long- term financial payables.

Net cash flow from operations (Euro 749 million) allowed us to cover entirely the net technical investments for the period of Euro 513 million. Including the disbursement related to the acquisition of the jointly controlled interest in OLT (Euro 334 million, including ancillary charges connected with the acquisition; Euro 316 million net of redemptions for the period), Free Cash Flow was negative by Euro 83 million. Net financial debt, after the cash flow of shareholders' equity (Euro 881 million), deriving primarily from payment to shareholders of the 2019 dividend (Euro 770 million, of which Euro 313 million as an advance and Euro 457 million as the balance¹⁷ and from the purchase of treasury shares (Euro 111 million), recorded an increase of Euro 965 million on 31 December 2019.

Financial and bond debts at 30 June 2020 equal to Euro 15,992 million (Euro 14,774 million at 31 December 2019) comprise the following:

(€ million)	Total at 31.12.2019	Total at 30.06.2020	Change
Bonds	9,048	8,682	(366)
- of which short-term (*)	1,439	827	(612)
Bank loans	3,704	5,291	1,587
- of which short-term (*)	685	2,273	1,588
Euro Commercial Paper - ECP (**)	2,001	2,000	(1)
Financial payables for leased assets	21	19	(2)
	14,774	15,992	1,218

(*) Includes the short- term portion of long- term financial payables.

(**) Entirely short-term.

¹⁶ Calculated by multiplying the number of treasury shares by the period-end official price of Euro 4.334 per share.

¹⁷ The total dividend from 2019 earnings amounted to Euro 779 million, including Euro 313 million as an advance (paid in full) and Euro 466 million as the balance (including Euro 457 million paid at 30 June 2020 and Euro 9 million to be paid upon deferral of collection requested by certain shareholders).

Financial and bond debts are denominated in Euro and refer mainly to bond loans (Euro 8,682 million, or 54%) and bank loans (Euro 5,290 million, or 33%, including Euro 1,648 million provided by the European Investment Bank- EIB) and Euro Commercial Papers (Euro 2,000 million, 13%)¹⁸.

Bonds (Euro 8,682 million) declined by Euro 366 million compared with 31 December 2019, specifically: (i) the reimbursement of a fixed-rate bond maturing on 13 February 2020 of a nominal value of Euro 526 million; (ii) the reimbursement of a fixed-rate bond maturing on 29 January 2020 worth a nominal Euro 350 million. These changes were partially offset by the issue of the Transition Bond, for a nominal amount of Euro 500 million, at a fixed rate maturing on 17 June 2030.

Bank loans (Euro 5,291 million) increased by Euro 1,587 million, due mainly to higher net utilisations of uncommitted credit facilities (Euro 1,047 million).

Euro Commercial Paper (Euro 2,000 million) refers to unsecured short-term securities issued on the money market and placed with institutional investors and are substantially in line with 31 December 2019.

Cash and cash equivalents (Euro 3,104 million) refer mainly to current accounts and on-call bank deposits (Euro 3,053 million) and cash held at the company Gasrule Insurance DAC (Euro 25 million) and Snam International B.V. (Euro 20 million).

At 30 June 2020, Snam had unused committed long-term lines of credit worth Euro 3.2 billion.

Information on financial covenants can be found in Note 13 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the condensed interim consolidated financial statements.

¹⁸ At the date of this Report, the Euro Commercial Paper programme had been used for the entire amount of Euro 2 billion.

Reclassified statement of cash flows

The reclassified statement of cash flows below summarises the legally required financial reporting format. The reclassified statement of cash flows shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

RECLASSIFIED STATEMENT OF CASH FLOWS (*)

(€ million)	First half	
	2019	2020
Net profit	581	572
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	237	265
- Net capital losses (capital gains) on asset sales and write-offs	3	1
- Dividends, interest and income taxes	279	247
Change in working capital due to operating activities	285	(176)
Dividends, interest and income taxes collected (paid)	(164)	(160)
Net cash flow from operating activities	1,221	749
Technical investments	(402)	(457)
Equity investments	6	(5)
Change in long-term financial receivables		(314)
Other changes relating to investment activities	(31)	(56)
Free cash flow	794	(83)
Repayment of financial payables for leased assets	(3)	(3)
Change in short- and long-term financial payables	577	1,220
Equity cash flow (a)	(743)	(881)
Net cash flow for the period	625	253

CHANGE IN NET FINANCIAL DEBT

(€ million)	First half	
	2019	2020
Free cash flow	794	(83)
Exchange rate differences on financial debt	(2)	
Change in financial payables for leased assets	(24)	(1)
Equity cash flow (a)	(743)	(881)
Change in net financial debt	25	(965)

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

(a) Includes cash flow and payment to shareholders of the dividend and from the purchase of treasury shares.

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(€ million)

Items of the reclassified statement of financial position (Where not expressly stated, the component is taken directly from the legally required format)	31.12.2019		30.06.2020		
	Reference to notes to consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Fixed capital					
Property, plant and equipment			16,439		16,469
Compulsory inventories			363		363
Intangible fixed assets			990		1,031
<i>Equity investments comprising:</i>			1,828		1,844
- Equity investments measured using the equity method		1,787		1,805	
- Other equity investments		41		39	
Long-term financial receivables	(Note 5)		3		318
<i>Net payables for investments, consisting of:</i>			(312)		(252)
- Payables for investment activities	(Note 14)	(320)		(256)	
- Receivables from investment/divestment activities	(Note 5)	8		4	
Total fixed capital			19,311		19,773
Net working capital					
Trade receivables	(Note 5)		1,217		1,267
Inventories			112		122
<i>Tax receivables, consisting of:</i>			35		50
- Current income tax assets and other current tax assets		26		41	
- IRES receivables for national tax consolidation scheme	(Note 5)	9		9	
Trade payables	(Note 14)		(487)		(312)
<i>Tax payables, consisting of:</i>			(35)		(53)
- Current income tax liabilities and other current tax liabilities		(35)		(53)	
Deferred tax liabilities			(106)		(85)
Provisions for risks and charges	(Note 15)		(713)		(696)
Derivative hedging instruments			(63)		(79)
<i>Other assets, consisting of:</i>			185		85
- Other receivables	(Note 5)	142		37	
- Other current and non-current assets	(Note 8)	43		48	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(145)		(146)
- Regulated assets	(Note 8)	2		13	
- Regulated liabilities	(Note 15)	(147)		(159)	
<i>Other liabilities, consisting of:</i>			(1,094)		(771)
- Other payables	(Note 14)	(994)		(654)	
- Other current and non-current liabilities	(Note 15)	(100)		(117)	
Total net working capital			(1,094)		(618)
Provisions for employee benefits			(46)		(43)
Assets held for sale and directly associated liabilities consisting of:			10		
- Assets held for sale		10			
NET INVESTED CAPITAL			18,181		19,112

(€ million)					
Items of the reclassified statement of financial position (Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	31.12.2019		30.06.2020	
		Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
NET INVESTED CAPITAL			18,181		19,112
Shareholders' equity (entirely held by Snam's shareholders)	(Note 18)		6,255		6,221
Minority interests	(Note 18)		3		3
Net financial debt					
<i>Financial liabilities, consisting of:</i>			14,774		15,992
- Long-term financial liabilities	(Note 13)	10,643		10,887	
- Short-term portion of long-term financial liabilities	(Note 13)	1,675		1,604	
- Short-term financial liabilities	(Note 13)	2,456		3,501	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(2,851)		(3,104)
- Cash and cash equivalents	(Note 4)	(2,851)		(3,104)	
Total net financial debt			11,923		12,888
COVERAGE			18,181		19,112

Reclassified statement of cash flows

(€ million)	First half			
	2019		2020	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit		581		572
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		237		265
- Amortisation and depreciation	355		374	
- Equity method valuation effect	(116)		(107)	
- Other income from equity investments			(1)	
- Change in provisions for employee benefits	(4)		(4)	
- Other changes	2		3	
Net capital losses (capital gains) on asset sales and write-offs		3		1
Dividend, interest and income taxes:		279		247
- Dividends	(2)		(2)	
- Interest income	(4)		(10)	
- Interest expense	77		64	
- Income taxes	208		195	
Change in working capital due to operating activities:		285		(176)
- Inventories	14		(12)	
- Trade receivables	300		(50)	
- Trade payables	(153)		(175)	
- Change in provisions for risks and charges	8		(5)	
- Other assets and liabilities	116		66	
Dividends, interest and income taxes collected (paid):		(164)		(160)
- Dividends collected	71		89	
- Interest collected	4		6	
- Interest paid	(72)		(64)	
- Income taxes (paid) received	(167)		(191)	
Net cash flow from operating activities		1,221		749
Investments:		(402)		(457)
- Property, plant and equipment	(365)		(381)	
- Intangible assets	(37)		(76)	
Equity investments		6		(5)
- Investments in shares	(5)		(17)	
- Disinvestments in shares	11		12	
Long-term financial receivables				(314)
- Stipulation of long-term financial receivables			(332)	
- Repayments of long-term financial credit			18	
Other changes relating to investment activities:		(31)		(56)
- Change in net payables for investments	(31)		(56)	
Free cash flow		794		(83)

(€ million)	First half			
	2019		2020	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Free cash flow		794		(83)
Change in short- term financial receivables				
Change in financial payables:		574		1,217
- Taking on long-term financial debt	968		1,147	
- Repaying long-term financial debt	(1,340)		(972)	
- Increase (decrease) in short- term financial debt	949		1,045	
- Repayment of financial payables for leased assets	(3)		(3)	
Equity cash flow		(743)		(881)
- Dividends paid	(746)		(770)	
- Acquisition of treasury shares			(111)	
- Capital contributions by minority interests	3			
Net cash flow for the period		625		253

Other information

Related-party transactions

With effect from 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already qualified as a de facto control under IFRS 10 - Consolidated financial statements from 2014, as a de facto control also pursuant to Article 2359, paragraph 1, of the Italian Civil Code and Article 93 of the Consolidated Law on Finance. Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, as well as subsidiaries, associates and companies under joint control (directly or indirectly) with the Ministry of Economy and Finance (MEF).

Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

These transactions are part of ordinary business operations and are generally settled at market conditions, i.e. the conditions which would be applied for two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the relevant legislation, the company has adopted internal procedures to

ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest. No management or coordination activity of CDP S.p.A. has been formalised or exercised.

Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, economic results and cash flows, are provided in Note 28 "Related-party transactions" of the Notes to the condensed interim consolidated financial statements.